

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 AGR-10 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-01 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15

STR-04 TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00

OMB-01 XMB-04 SAM-01 /127 W
----- 080155

R 261127Z AUG 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1241

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

AMCONSUL ZURICH

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DEPT PASS TREASURY AND FRB

GENEVA FOR MTN DELEGATION

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF AUG 17-23

1. SUMMARY: THE SPOT DOLLAR FLUCTUATED DOWNWARD THEN RECOVERED
IN RELATIVELY QUIET TRADING THIS WEEK. THE SWISS
MONEY AND CAPITAL MARKETS CONTINUED TO BE VERY LIQUID
AND INTEREST RATES DECLINED FURTHER. A MACROECONOMIC MODEL
DEVELOPED BY THE SWISS BANK CORPORATION PREDICTS THAT SWITZERLAND'S
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REAL GNP WILL DROP 2.7 PERCENT THIS YEAR, STAGNATE

IN 1976, AND RISE 5 PERCENT IN 1977; THE ANNUAL RATE OF INFLATION WILL LEVEL OFF AT AROUND 7 PERCENT AT THE END OF 1975 BUT WILL PICK UP AGAIN TO ABOUT 8 PERCENT IN 1977 THE LEVEL OF UNEMPLOYMENT JUMPED AGAIN IN JULY, BUT THE OFFICIAL RATE OF UNEMPLOYMENT IS STILL ONLY 0.3 PERCENT OF THE WORK FORCE. IMPORTS CONTINUED TO DROP FASTER THAN EXPORTS IN JULY AND THE TRADE BALANCE WAS IN SURPLUS FOR THE SECOND MONTH THIS YEAR. THE SWISS BANKERS' ASSOCIATION HAS ASKED PARLIAMENT TO DROP THE AUTHORITY TO RESTRICT CREDIT WHEN IT RENEWS THE 1972 EMERGENCY CREDIT DECREE.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: ALTHOUGH THE ZURICH FOREIGN EXCHANGE MARKET WAS RELATIVELY QUIET, THE DOLLAR CAME UNDER SOME SELLING PRESSURE AT MID-WEEK AND FELL TO A LOW OF SF 2.6550 AT THE OPENING ON WEDNESDAY, AUG 20. DURING THE REST OF THE WEEK, HOWEVER, THE DOLLAR RECOVERED AND CLOSED ON FRIDAY SLIGHTLY HIGHER THAN THE PREVIOUS MONDAY'S OPENING. DECLINING INTEREST RATES IN SWITZERLAND PRODUCED A WIDENING OF THE DISCOUNTS ON FORWARD DOLLAR TRANSACTIONS. THE D MARK STRENGTHENED SOMEWHAT AGAINST THE SF DUE, IN PART, TO CONTINUED SUPPORT OPERATIONS BY THE SWISS NATIONAL BANK (SNB). THE GOLD MARKET WAS QUIET AND PRICES FAIRLY STEADY ALL WEEK. RATES AS FOLLOWS:

	8/18 (OPEN)	8/22 (CLOSE)
SPOT DOLLAR	SF 2.6710	SF 2.6745
FORWARD DISCOUNTS		
(PCT. P.A.)		
ONE MONTH	- 4.6	- 5.6
3 MONTHS	- 4.1	- 5.6
6 MONTHS	- 3.7	- 4.4
SF/IM	SF 103.52	SF 104.18
GOLD	\$162.00	\$161.75

3. MONEY AND CAPITAL MARKETS: THE MONEY MARKET REMAINED VERY LIQUID THIS WEEK; THE DEMAND FOR CALL MONEY WAS VIRTUALLY NIL AND THE RATE WAS DOWN TO 0.25 PERCENT ON AUG 22. IN ORDER TO ADJUST THE CURRENT MARKET CONDITIONS, THE SNB ANNOUNCED ON FRIDAY THAT ON THE FOLLOWING MONDAY (AUG 25)

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IT WOULD REDUCE ITS REGULAR DISCOUNT RATE (FROM 4.5 TO 4.0 PERCENT), ITS LOMBARD RATE (FROM 5.5 TO 5.0 PERCENT). AND THE SPECIAL DISCOUNT RATES ON COMMERCIAL PAPER BACKED BY OBLIGATORY STOCKS OF FOOD AND OTHER GOODS DEEMED ESSENTIAL IN WAR TIME (FROM 4.5 TO 3.75 PERCENT FOR FOOD STOCKS AND FROM 5.0 TO 4.25 PERCENT FOR OTHER STOCKS). THE MAJOR BANKS ALSO ANNOUNCED CUTS IN THE INTEREYE PAID ON FIXED TERM DEPOSITS, EFNJCTIVE AUG 25. THE RETURN ON DDTOSITS WITH

A MATURITY OF 3-5 MONTHS WILL BE REDUCED FROM 3.0 TO 2.5 PERCENT, 6-11 MONTHS FROM 4.0 TO 3.75 PERCENT, AND ONE YEAR DEPOSITS FROM 5.5 TO 4.75 PERCENT. THE VERY LIQUID CONDITION OF BOTH THE MONEY AND CAPITAL MARKETS IS DUE TO A MARKED INCREASE IN SAVINGS ACCOUNTS. THE PERFORMANCE OF THE SWISS STOCK MARKETS WAS LACKLUSTER AND PRICES CONTINUED TO MOVE LOWER. THE SKA INDEX OF AVERAGE PRICES FELL FROM 184.8 (END 1959 EQUALS 100) ON AUG 15 TO 181.2 ON AUG 22. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS DROPPED FROM 6.32 PERCENT LAST FRIDAY TO 6.23 PERCENT ON AUG 22.

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ECONOMIC

4. ECONOMIC FORECAST: THE SWISS BANK CORPORATION (SBC) HAS DEVELOPED A MACROECONOMIC MODEL OF THE SWISS ECONOMY AND HAS JUST RELEASED THE MODEL'S FIRST PREDICTIONS. ACCORDING TO THE SBC, THE SWISS ECONOMY WILL CONTINUE TO DECLINE WELL INTO AUTUMN THIS YEAR. THIS WILL BE FOLLOWED BY A PERIOD OF RELATIVE STABILIZATION AND ECONOMIC ACTIVITY SHOULD BEGIN A SLOW RECOVERY IN THE SECOND HALF OF 1976. THE SBC'S MODEL PRODUCED THE FOLLOWING FIGURES FOR 1975; REAL GNP DOWN 2.7 PERCENT (THIS IS A BIT MORE OPTIMISTIC THAN THE GOVT'S MOST RECENT PREDICTION OF A 3.5 PERCENT DROP), PRIVATE CONSUMPTION DOWN A REAL 1.8

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PERCENT, INVESTMENT DOWN A REAL 13 PERCENT, EXPORT QUALITY DOWN 13 PERCENT, AND THE ANNUAL RATE OF INFLATION SHOULD LEVEL OFF AT ABOUT 7 PERCENT BY THE END OF THE YEAR. ASSUMING THAT 1976 WILL SEE A RESURGENCE OF ECONOMIC ACTIVITY IN SWITZERLAND'S MAJOR EXPORT MARKETS, PARTICULARLY THE US AND THE EC, THE MODEL ANTICIPATES A STAGNATION OF GNP AND PRIVATE CONSUMPTION IN 1976, AN AVERAGE 2.0 PERCENT DECLINE IN INVESTMENT RESULTING FROM A SHARP DROP IN THE FIRST HALF OF THE YEAR AND A PARTIAL RECOVERY IN THE SECOND HALF, EXPORTS UP 5-6 PERCENT, AND INFLATION HOLDING AROUND THE 7 PERCENT P.A. LEVEL. GOING WAY OUT ON A LIMB, THE MODEL HAS SOME GOOD NEWS FOR 1977 WHEN CONSUMPTION, INVESTMENT, EXPORTS, AND EMPLOYMENT ARE ALL EXPECTED TO BE GROWING AND REAL GNP TO INCREASE BY 5 PERCENT. INFLATION, HOWEVER, WILL ALSO BE RISING AND WILL BE RUNNING SOMEWHERE AROUND AN 8 PERCENT ANNUAL RATE IN 1977.

5. UNEMPLOYMENT CONTINUED TO RISE: GOVT STATISTICS LIST 8,527 PERSONS AS UNEMPLOYED AT THE END OF JULY, UP FROM 7,531 AT THE END OF JUNE AND FROM 69 A YEAR AGO. THE RATIO OF UNEMPLOYED TO JOB OPENINGS ROSE FROM 2.5 PERSONS PER JOB OPENING IN JUNE TO 2.8 IN JULY.

6. FOREIGN TRADE: AS SHOWN BELOW, TOTAL SWISS IMPORTS CONTINUED TO FALL AT A MUCH FASTER RATE THAN EXPORTS DURING JULY WHICH PRODUCED SWITZERLAND'S SECONDMONTHLY TRADE SURPLUS (SF 20.6 MILLION) THIS YEAR. SWITZERLAND ALSO HAD ITS FIRST MONTHLY SURPLUS (SF 2.2 MILLION) IN ITS TRADE WITH THE US THIS YEAR. SINCE JAN 1975 THE US SHARE OF TOTAL IMPORTS HAS SLIPPED FROM 9.4 PERCENT TO 6.0 PERCENT IN JULY.

	WORLD	US
MILLION SF (PCT. CHANGE OVER SAME PERIOD 1974)		
JULY		
IMPORTS	2,850 (-26.6)	171 (-16.7)

EXPORTS 2,871 (-9.1) 173 (-26.9)

JAN-JULY

IMPORTS 20,631 (-20.1) 1,589 (-5.6)

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EXPORTS 19,174 (-7.4) 1,106 (-22.1)

7. BANKERS COMMENT ON EXTENSION OF CREDIT DECREE: THE SWISS BANKERS' ASSOCIATION ISSUED A COMMUNIQUE THIS WEEK RECOMMENDING THAT WHEN PARLIAMENT CONSIDERS THE FEDERAL COUNCIL'S REQUEST FOR AN EXTENSION OF THE 1972 EMERGENCY CREDIT DECREE (SEE BERN 3223), THE POWER TO RESTRICT CREDIT SHOULD BE ELIMINATED. THE BANKERS ARGUE THAT WHILE THESE CONTROLS WERE JUSTIFIED IN 1972, WHEN FIXED EXCHANGE RATES LIMITED THE SNB'S ABILITY TO IMPLEMENT AN EFFECTIVE MONETARY POLICY TO FIGHT INFLATION, THE ECONOMIC SITUATION HAS CHANGED DRASTICALLY SINCE THEN, THE BANKERS BELIEVE THE SNB SHOULD NOT HAVE THE POWER TO LIMIT CREDIT EXPANSION AT A TIME WHEN LOWER INTEREST RATES ARE NEEDED TO HELP STIMULATE THE ECONOMY AND TO FIGHT INFLATION. (THE CREDIT CEILING WAS LISTED LAST MAY AS AN ANTI-RECESSION MEASURE, BUT THE FEDERAL COUNCIL WANTS TO RETAIN THE AUTHORITY TO REIMPOSE CREDIT CONTROLS SHOULD THERE BE A RESURGENCE OF DEMAND-PULL INFLATIONS.) THE BANKERS ALSO ASKED THAT PARLIAMENT EXTEND THE AMENDED DECREE FOR THE NORMAL THREE YEARS RATHER THAN THE FIVE YEARS REQUESTED BY THE FEDERAL COUNCIL.
ODELL

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